



Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

February 18, 2011

Via Email to [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov).

RE: Docket No. R-1404 and RIN No. 7100 AD63

Eastern Bank respectfully submits to the Board of Governors of the Federal Reserve System our concerns regarding the Debit Interchange Amendment of the Dodd-Frank Act and its impact on community banks like Eastern Bank and our customers.

Eastern Bank is a \$7.6 billion bank in eastern Massachusetts with nearly 100 branches and 1,500 employees. As a mutual bank, we view ourselves as an asset of the communities that we serve and pride ourselves on our commitment to our customers. As many of our larger competitors have implemented new checking account fees over the past few months in response to new regulations that restricted overdraft fee income, we absorbed the revenue loss and proudly announced that we are committed to offering free checking. The income we receive from debit interchange was a key factor in our ability to do so. The Durbin Amendment – and its potential impact on the profitability of checking accounts – threatens that commitment and may ultimately threaten our ability to offer consumers a simple checking account at no cost.

We are particularly concerned about three aspects of the Amendment:

○ **Unintended interchange rate restrictions on community banks**

One of the key provisions of the Act is setting interchange rates for debit transactions. Although this provision technically applies to institutions with assets of \$10 billion or more, we believe it will have a significant impact on community banks as well.

- Eastern Bank issues MasterCard debit cards. Although Visa has announced plans to support a two tiered pricing structure if necessary, MasterCard has not yet announced its intention in this regard. Depending on MasterCard's decision, Eastern may not have the option of a two-tier pricing model in the near term.
- If there is a two-tier pricing model, merchants would pay lower interchange rates for debit transactions for larger institutions. We are concerned that this will cause merchants to prefer debit cards from larger institutions and to steer their customers towards these institutions by either refusing to accept our cards or by providing preferred pricing for debit cards from larger institution. This would further compound the impact of the Durbin Amendment on community banks by causing many checking account customers to migrate from smaller institutions to larger ones.

- **Impact of lower interchange rates on community banks**

If community banks are subject to the interchange rates set by the Fed, this will put community banks at an unfair disadvantage. Because of our size, we do not have the same economies of scale for issuing debit cards, processing transactions and managing fraud as larger banks. The \$.12 interchange rates recently proposed are lower than our processing costs and will destroy the profitability of our debit card program.

- **Implications of proposed requirements for routing transactions**

A requirement prohibiting exclusive arrangements with PIN or signature providers (Alternative B) would cause further financial detriment to banks.

- Allowing merchants to choose which network to use to process transactions will allow merchants to direct transactions to the lower cost network without regard for the security of the transaction. If banks must absorb the losses associated with fraud, banks should have the ability to choose the networks that process the transactions.
- Alternative B also creates the needs for unnecessary relationships with additional networks. Requiring multiple signature networks would cause a host of issues, including the need to develop a system to support such an option and degradation of signature network benefits.

Eastern Bank is strongly opposed to the Durbin Amendment and hopes that Congress will repeal the Amendment or delay implementation until this matter has been fully reviewed. In absence of repeal or delay, we understand that the Board is somewhat limited by the statute, but ask you to consider the following:

- **Set a reasonable limit on debit interchange**

We encourage the Board to exercise its discretion to the maximum extent permitted under the statute and to take all costs associated with running a debit card program into account when establishing interchange rates. In addition to the variable costs associated with each debit transaction, issuers incur a number of other expenses associated with debit cards including: fixed costs associated with managing a debit card portfolio, network and processor fees, costs to issue and service cards, costs related to disputes, fraud losses and fraud prevention. Any fee that does not take all of these costs into account is not a reasonable fee. In addition, issuers must be allowed to make a reasonable profit for this very important service that they provide. This is a service that benefits both the consumer and the merchant, who is guaranteed payment whenever a debit card is used.

- **Adopt Alternative A for routing requirements**

We encourage the Board to adopt Alternative A for routing requirements. This alternative would allow the issuer to continue to choose the networks through which their cardholders' transactions are routed – a decision based on the quality of the network and the service provided to their customer, rather than the lowest cost provider.

We are very concerned about the impact the Durbin Amendment will have on community banks and our customers, and appreciate the opportunity to voice our opinion. While we remain committed to offering free checking, we are deeply concerned about our ability to absorb yet another round of revenue losses on checking accounts. At some point, even the most committed community banks such as Eastern will be forced to share the losses with our customers in the form of fewer benefits and higher fees. Please help us avoid this scenario.

Sincerely,

Richard E. Holbrook  
Chairman and CEO